



NCDOR

**NORTH
CAROLINA
DEPARTMENT
OF REVENUE**

AUDIT INITIATIVES

E-NC-3 & REFUND FRAUD

February 9, 2016

- Under N.C.Gen.Stat. 105-259, the agency is prohibited from disclosing tax information to parties outside the NCDOR, including:
 - Standards used or to be used for the selection of returns for examination and data used or to be used for determining the standards may not be disclosed for any purpose.

- 49 Active Audit Initiatives
 - ABC / Bar / Restaurant
 - Cash Intensive Business Audit
 - Financial Institution Record Matching (FIRM)
 - Individual Return Master File Non-Filer Assessment
 - Large Corporate Cases / Income Shifting
 - Internet Retailers
 - 4% ITIN Withholding

- **Status**

- December 31, 2015 – SAS completed refund fraud and identity theft enhancement

- **Result**

- SAS enhanced refund fraud program
- Match W-2 to return through E-NC-3
- Deceased Master Matching (DMM)
- Identity Theft Analysis (ITA)
- Address and Neighborhood Analysis (ANA)
- Score all refund returns submitted to DOR with specific rules and criteria

- **Problem**

- Large increase in computer hacking of companies, compromising personal information resulting in a substantial increase identity theft refund fraud. Also a year after year increase in volume and complexity of tax schemes regarding non-identity theft refund fraud

- **Objective**

- Secure real time electronic submission of NC-3/W-2/1099 data in conjunction with enhanced refund fraud scoring mechanisms to increase NCDOR capacity to determine identity theft refund fraud and non-identity theft refund fraud

	<u>FY 6/30/15</u>	<u>FY 6/30/14</u>	<u>FY 6/30/13</u>	<u>FY 6/30/12</u>
Cases	22,087	26,205	15,675	12,800
Refund Savings	25,526,922	\$22,006,925	\$18,873,647	\$22,048,703

- Impact of late filing dates (Prior to HB117)
 - Limits our Refund Fraud Program
 - Non-recoverable revenue
 - Limits Revenue Recovery from other Audit Initiatives
 - Aged accounts receivable

- New due date for NC-3 (HB117)
 - January 31 of the succeeding year
- Requirement that all companies transmit NC-3 electronically
- NCDOR web portal allows for electronic submission of NC-3 and associated W-2/1099
 - Bulk transmittal
 - Payroll providers
 - Large employers
 - File-upload
 - Small to medium sized companies
 - Any employer with technological abilities
 - Web-fill option for employers without transmittal capabilities (future capability)

- **Status**

- Can accept bulk transmission and file upload as of January 21, 2016
- 40 large employers currently discussing and testing use of bulk transmittal
- Release 2, currently testing pipeline for E-NC-3 data to migrate into Portfolio Warehouse (PW)
- Phase II, after filing season, build automated upload of this year's CDs and paper W-2's into PW. Finalize Taxpayer data entry platform on web-site

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